THE MANAGEMENT ROLE OF CONTROLLERSHIP

BY

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A TERM REPORT

FOR

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PART I

INTRODUCTION

Controllership is not a new concept in modern business management. It is even less recent in the field of government. The office of Controller has been incorporated in the management structure of private business for many years, and it appears to be steadily increasing in numbers and in importance. The Federal government has also enjoyed the services of a controller in its administrative branches. The controllers themselves have followed the pattern of other professional groups and have organized the Controllers Institute of America to further promote and distinguish controllership as a profession. Universities have modified many of the scheduled courses in Business Administration to embrace the controllership aspects of business management, and in some instances, as at George Washington University, special courses are being conducted with particular emphasis on the various phases of controllership. The concept appears to be gaining favor in all quarters, even in Congress, as a necessary management tool. The present Administration's theme of "cost consciousness" has been conveniently associated with controllership as the remedy for a long illness.

It is not grossly irrational, therefore, to conclude that the concept of controllership in business and in government must offer a real contribution to management. If this is true, is it not also logical to ask: "What is this contribution? What does a controller do? What are the functions of the controller's office?" Unfortunately, the answers to these

CHAPTER I

INTRODUCTION

questions are not only inconsistent and divergent in opinion, but down right confusing. In all quarters of business management and government administration there are many concepts of the functions of a controller, and they are quite often inconsistent with actual practices. The academic writings, although less divergent in opinion, have been conveniently directed toward control of the figure function in business management, and the student is understandably confused as to the real contribution of controllership.

There is probably some merit to each of the various concepts of controllership because each idea embraces certain functions which appear most important to individual situations and to certain professional groups. But there is evidence of abuse of the controllership concept in business, and it appears that a concerted effort is being made by the accounting profession to peg controllership to control of the figure function in business management. This is indeed an unfortunate movement and surely compromises the real need for controllership in the management structure. If allowed to continue, controllership is doomed to die a traitor's death and management will have failed to protect the interests of the stockholders; responsibility will be misdirected and the controller's office will bear the burden of guilt because management did not receive vital information.

This paper is an attempt to analyze the various controllership concepts and to point out wherein certain practices are not fulfilling the real need of management. If the controllership concept is a valid management tool, it must offer a real contribution. The role of controllership should lend itself to variation with respect to the scope and magnitude of individual situations, but not to the aim of making a real contribution to management. A concept of this management role of controllership will be presented

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judge controlling. In all quarters of practice conflict and inconvenience
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ment. A concept of this magnitude (role of management) will be pursued

in the following paragraphs. It is not expected that every one will agree with the interpretation presented herein, although it is partly subscribed in many quarters. However, there can be little quarrel with the management needs that are presented, and the arguments discussed here merely nominate the controller to fulfill those needs and thereby make a real contribution to management.

PART II

EVOLUTION OF THE CONTROLLERSHIP FUNCTION IN AMERICAN BUSINESS

Early history.--The office of Controller is not a modern innovation in American business. Early history dates back to 1880, when The Atchison, Topeka & Santa Fe Railway System established the office of "Comptroller."[1] It appears that the railroads were the first of the American business corporations to recognize the need for a controller in the management organization. This was undoubtedly due to the rapid expansion of the railroad empires between 1860 and 1880. During this period the transportation system of the country was undergoing a major change. The railroads were expanding their networks; equipment was being radically improved with the invention and use of the Pullman car, the diner and the regrigerator car; the first steel rails were rolled in 1865 from Bessemer steel; and Federal, state and local governments were convinced of the growth potential and gave the railroads substantial land grants and other financial aid.[2] It is not surprising that it was during this period that the railroads first recognized the need for additional management control of financial activities. The Southern Pacific Company established the office of comptroller in 1885, the New York, New Haven & Hartford Railroad Company in 1887, the Illinois Central System

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[1] T. F. Bradshaw and C. C. Hull, Controllership in Modern Management (Chicago: Richard D. Irwin, Inc., 1950), p. 16.

[2] America's Wealth (Washington, D. C.: The Brookings Institution, 1952), p. 9.

[illegible] Dunham's Retail Dry Goods Association, 1955), p. 12.

[illegible] Marshall Retail Merchandising, p. 12. The Progressive Merchant (Chicago: Progressive Publishing Co., 1955), p. 12.

and the Lehigh Valley Railroad Company in 1890.[3] It is important to note that this initial recognition of the controllership function in American business was for the control of certain financial activities, rather than for the accounting function.[4]

The great rise of American industrial corporations followed in the wake of the transportation revolution. During the first ten years of the new century the value of manufactured goods doubled; the volume increased by two-thirds; and the number of manufacturing workers increased forty percent.[5] This period of expansion was really launched in the latter quarter of the nineteenth century by the many new scientific discoveries and technological applications. Electricity for light and power, the telephone for voice communication, and numerous other important discoveries exploded in the lap of American industry. It is not surprising then that it was also during this period that industrial corporations recognized the need for additional control of certain management functions and established the office of controller. The earliest industrial controllership was established by the General Electric Company in 1892, and the Consolidated Edison Company of New York, Incorporated established a similar office in 1900.[6] Again, it is important to note that the early controller was not the chief accounting officer. His duties related largely to financial matters and policies.

Recent history.--Since the turn of the century nearly all areas of business activity have been embraced in a vigorous and continuous pattern of

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[3]Bradshaw and Hull, op. cit., p. 16.

[4]J. Hugh Jackson, The Comptroller: His Functions and Organization (Cambridge: Harvard University Press, 1949), pp. 7-8.

[5]America's Wealth (Washington, D. C.: The Brookings Institution, 1952), p. 16.

[6]Bradshaw and Hull, op. cit., p. 17.

[illegible] for the removal of certain financial activities, rather than [illegible].[4]

The first form of direct investment encouragement relevant to the case of the Pennsylvania textiles. During the first two years of the century the value of manufactured goods exported the value increased or decreased and the number of manufacturing workers increased [illegible] 1905,[5] This period of expansion was really dismissed in the latter portion of the nineteenth century to the only one industrial diversified and [illegible] activities. Inevitably for labor and power, the industries [illegible] region experienced, and sometimes grave depressed circumstances [illegible] the lap of American industry. It is not surprising then that it was also during this period that important exploitations developed the need for additional control of social consequences and necessitated the direction of activity. The earliest industrial activities [illegible] of the former theories [illegible] and, as the [illegible] of the 1920's, Pennsylvania remained a similar crisis in 1929,[6] again, it is important to note that the early [illegible] not the chief economic [illegible] is quite relative largely in financial terms and [illegible].

Motor Labor.--Since the turn of the century nearly all areas of business activity have been subjected to a vigorous and continuous process of

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[4]Hawkins and Smith, op. cit., p. 12.

[5]"Industry" Media Encyclopedia of the American Institutions, (Cambridge: Harvard University Press, 1952), p. 16.

[6]Hawkins and Smith, op. cit., p. 12.

growth and expansion. However, a chart of the various industrial indices shows dramatically that the dynamic progress of American industry has not been without periods of hesitation, temporary reverses and forced mobilization of industrial capacity. It is not difficult to see that the various periods of recession, depression and war shook the American economy to its foundations. Although the acceptance of controllership by American industry was gradually increasing, it appears that these periods of stiffening competition and government regulation gave impetus to the recognition of the controllership function as a management tool. The world depression of the thirties separated the men from the boys, and top management has since been ever mindful of the lessons that were learned. Two world wars have also left their scars on the economy of the nation and the managers of American business have learned much during these periods. Competition is the key to American business activity, and management has learned that a rapidly expanding economy provides a dynamic environment for expansion of new industries which come to life and survive as lasting competitors.

During the past decade the controllership concept has gained considerable favor both in business and in government. This period especially has been one of full employment and expanding production, new discoveries and technological developments, particularly the revolution in electronics and aviation. The atomic bomb and its associated developments have caused much concern and forward thinking with regard to the pattern of future expansion. This rapidly expanding economic atmosphere, the increase in size and complexity of business activities, and the mounting government intervention and control of business and private affairs has greatly increased the scope and magnitude of management responsibilities. It is not unusual that management, beset with these expanding responsibilities,

should recognize the need for additional assistance for management planning and control. This recognition has resulted in the increasing acceptance of the controllership concept in American business.

Organization of controllers.--Evidence of the growing importance of the controllership movement was highlighted when the individual controllers expressed the need for a national organization through which experiences could be compared and procedures and standards established to assist them in meeting their responsibilities more effectively. Such an organization would also help considerably in distinguishing and promoting controllership as a profession and shorten the ladder to real management status. Thus, a national organization of controllers was established in December, 1931, with the impressive title of "The Controllers Institute of America."[7] The rapid exchange of information and preparation of papers on technical subjects led to the publication of a monthly magazine, "The Controller", which was undertaken in February, 1934.[8] Local organizations, called Controls, can now be found in nearly all major cities and other industrial communities.

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[7] Ibid., pp. 32-37.

[8] Ibid., p. 35

[7] Ibid., pp. 82-87.

[8] Ibid., p. 82

PART III

PRESENT CONTRIBUTION OF CONTROLLERSHIP TO BUSINESS MANAGEMENT

Trend toward accounting functions.--Since the controllership concept has been widely accepted as a management device, it should not be difficult to delineate the various functions that are the responsibility of a controller in business today. Unfortunately, this is not the case. There are many variations and opinions in regard to the functions of a controller. The Controllers Institute of America has attempted to clarify this problem by defining the profession's position in regard to the responsibilities of the controller's office, and by setting to print a list of specific duties and a form of by-law for a corporation to govern the controller's office.[1] This undoubtedly has offered some guidance to recent organizational changes. However, many corporations established the office of controller and assigned responsibilities in accordance with the problems that appeared significant at that time. Such organizational relationships are difficult to change, and although the controller may be a member of the professional Institute he must still conform to the dictates of his company.

This variance and confusion as to functions and responsibilities appear to have weakened the contribution of controllership to management. The accountants have taken advantage of this weakness to drive a wedge into the management structure, thereby obtaining promising opportunities for the

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[1]The Controller, (January, 1947), p. 46.

Typical Contradictions of Controllership
In Business Management

Fixed Dollar Accounting Implications.--Since the conventionally em-
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the controller's office, and by setting up a list of specific duties
and a form of job-law for a determination be given the controller's office.[1]
This accomplishment was delayed some twelve to twenty years because
however, many conservatives entrenched for utility of controller and analyses
responsibilities in accordance with the problems that typically significant
at that time. Some organizational relationships are difficult to analyze,
and although the controller may be a member of the top-management hierarchy
he may still continue to the direction of his accounts.

Fair valuation and depreciation as to fluctuations in purchasing
either to date measure the profitability or satisfactorily do management.
The accountants have spent millions of fifty dollars to derive a means that
the management structure, through different techniques for the

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[1]"The Controller" (January, 1947), p. 86.

accounting profession. This initial thrust can be likened to a military maneuver in that the accountants have gained a position of advantage and now appear to be on firm ground and gradually moving forward. A cursory examination of current writings on Controllership and of the actual responsibilities of present controllers will confirm this fact. The accounting profession appears to have sold the managers of American business corporations that controllership is the control of the figure function in business management and that the head accountant is the most qualified man for that office. Since the accountants have cornered the controller market, it can be expected that the various technical papers and academic writings, along with the recommendations of the Controllers Institute, will be directed toward control of the figure function. In this manner the role of controllership in business is being skillfully steered down the path to the Chief Accountant's office. Note the direction of this guidance as being down rather than up, or in military parlance--a retreat rather than an advance. Further amplification of this point will be made in later paragraphs.

Current writing on controllership.--Since the controllership concep is enjoying a period of increasing popularity, quite naturally the academic writings are being pushed to keep pace with the movement. Many studies are being made, and it is not surprising that most of the technical articles and books are being authored by members of the accounting profession. It also is not surprising that the contents of these writings are generally i agreement with the recommendations of the Controllers Institute of America In nearly all cases the controller's primary responsibility is defined as Chief Accountant. His management contribution is a secondary function. I us document this statement with specific examples. One of the most recent books on controllership, which is recommended by the profession as an exc

treatment of the subject, sets forth this definition: "'Controller' is the title accepted in this book as signifying the position of the chief accounting and statistical officer."[2] The authors are both Certified Public Accountants--one a university professor and the other a controller in industry. Another popular book states that controllership, "in spite of its many ramifications, is basically the record-keeping and reporting function."[3] Again, the author is a Certified Public Accountant and a controller in industry. The Corporate Treasurer's and Controller's Handbook has this to say: "In the modern business corporation, the title is used ordinarily to designate the principle officer in charge of accounts."[4] A recent accounting text states that "in a typical case, the Controller will be designated as the chief accounting officer of the company, with powers..."[5] Compare these statements with the by-law for a corporation that the Controllers Institute recommends to define the duties of a controller:

> The duties of the controller shall be to maintain adequate records of all assets, liabilities, and transactions of this corporation; to see that adequate audits thereof are currently and regularly made; and, in conjunction with other officers and department heads, to initiate and enforce measures and procedures whereby the business of this corporation shall be conducted with the maximum safety, efficiency, and economy. He shall attend all meetings....[6]

In view of these facts, there can be little argument with the charge that the accounting profession is guiding the movement of the controllership

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[2] J. B. Heckert and J. D. Willson, Controllership (New York: The Ronald Press Company, 1952), p. 7.

[3] D. K. Anderson, Practical Controllership (Chicago: Richard D. Irwin, Inc., 1949), p. 17.

[4] Lillian Doris, Corporate Treasurer's and Controller's Handbook (New York: Prentice-Hall, Inc., 1951), p. 6.

[5] W. A. Walker and W. R. Davies, Industrial Internal Auditing (New York: McGraw-Hill Book Company, Inc., 1951), p. 32.

[6] The Controller, (January, 1947), p. 46.

[illegible] [illegible] [illegible] [

concept in American business. The accountants can, therefore, be held accountable for the role of controllership and for its contribution to business management. Let us next take a look at the present status of controllership in business and at the functions it is performing, and then analyze these functions in terms of their real contribution to management.

Status of the Controller.--As mentioned previously, many companies have established the office of controller, but do not subscribe to all of the recommendations of the Controllers Institute in regard to the functions, responsibilities, and status of the office. In one company the controller may operate in a staff capacity only, while in others he may have line responsibility--or he may function in both capacities. In one company he may be the chief accountant--in others the auditor, treasurer, or administrative assistant. Many controllers enjoy management status by official title as vice president--others are pegged as assistants in the lower echelon of management. In many cases the position has been given official status by specific by-laws of the corporation, while in others the office is merely established by management. Again, the role of a controller in American business appears to depend upon the requirements of the individual business enterprises at the time the office is established.

A method of business administration--such as controllership--cannot grow and be widely accepted by American business without evidence of certain trends within its movement, especially under the guidance of large professional groups such as the Controllers Institute and other accounting organizations. For example, a 1947 survey of more than fifty companies, representative of a wide range of business from the standpoint of size, geographic location, and type of industry, indicated that certain trends were definitely in progress within the controllership movement. This study was conducted by

the Metropolitan Life Insurance Company in cooperation with the Controllers Institute of America. The following observations were indicative of the trend in regard to the status of the controller in 1947, and present practices appear to reaffirm this study:[7]

1. The controller's job is pretty generally established as an official one, with the title of Vice President.
2. The prescribing of the duties of the controller in the corporation by-laws is not as commonly followed as might be expected from the official status of the position. Usually the duties, as prescribed in the by-laws, are expressed in rather broad, general terms.
3. Typically, the controller is not a member of the board of directors.
4. Most commonly the controller is appointed or elected by the board of directors.
5. Since the controller ranks as a senior company executive, it is customary to find him reporting directly to the chief executive or top management of the company.

Unquestionably, the controller is not on the second team--he is a member of the management group, and it logically follows that his functions should relate to management problems. Interesting statistics are available in this regard.

Functions and responsibilities.--It would probably be difficult to find two controllers with identical functions and responsibilities. However, there are certain areas in which the controller normally operates, and variations in regard to specific duties are affected by the characteristics of each type of business. The survey conducted by the Metropolitan Life Insurance Company points out those areas in which the controller is normally interested. In order to get some measure of the extent to which specific duties were assigned to a controller and the variations in practice, a composite check list of activities was prepared and the companies participating in this study were asked to indicate those for which the

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[7] Functions of the Controller (New York: Metropolitan Life Insurance Company, 1947), pp. 10-11.

[illegible]

[illegible]

[illegible]

controller was responsible. The results of this survey, showing the number of companies reporting affirmatively on each item, are as follows:[8]

Check List of Controller's Functions

	Companies in which included	
	With Qualifications	As Stated
1. General Accounting Activities.		
(a) Devise, install, and maintain books of account and related records.	0	49
(b) Devise or approve accounting methods, systems, or practices.	0	51
(c) Preparation of customer's invoices (billing).	0	42
(d) Verification and approval of vouchers payable.	1	45
(e) Preparation and signing or co-signing of disbursement checks	12	32
(f) Devise and administer payroll procedure, including computation of pay	3	43
(g) Maintain plant and equipment records and accounts, including determination of depreciation rates.	1	48
(h) Cost accounting operations related to production, distribution, or commercial activities.	3	43
2. Financial reports and statements.		
(a) Preparation and approval of all financial statements and reports for the guidance of the management or for publication or distribution to stockholders, to the public, or to governmental agencies.	1	50
3. Auditing.		
(a) Prescribe internal auditing procedure . . .	2	48
(b) Conduct continuous and periodic audits of all company activities and locations. .	2	47
(c) Check conformance with laws and governmental regulations	3	44
(d) Select, employ, and work with outside public accountants	13	18

[8] Ibid., pp. 44-47.

Check List of Contributory Inventors

1. General housecleaning equipment.		
(a) Carpet, insect, and moisture proof ma-		
terial, and relined sleeves	0	88
(b) Duster or sleeve accessories,		
adhesive, or fastener	0	87
(c) Combination of cutlery, pastries		
(Omitted)	0	88
(d) Ventilation and ejectors or suckers		
(Omitted)	0	88
(e) Indirection and lighting or combined		
implements	3	86
(f) Nature and emulsifier vacuum pressure,		
or explosives cooper	12	89
(g) Material combination of fabric		
material and adhesive receptacle	3	88
(h) Instrument, dust and sediment receptacle		
and eyeglass insulating detachable		
(i) Cook equipment determining relation to		
of objective lens.	1	88
Pneumatic, dynamical, or combus-		
tion engine.	8	87
(k) Miscellaneous apparatus.	7	10
2. Sweeping.		
(a) Combination and cutlery of all kinds-		
cutting, or the purchasing or use		
of the invention or electrician or block-		
purpose, or the purifier, or cleaning		
powder agencies.	7	10
3. Cooking.		
(a) Combination and cutlery of all kinds-		
cutting, or the purchasing or use		
of the invention or electrician or block-		
purpose, or the purifier, or cleaning		
powder agencies.	7	10
(b) Burner construction and carbide oxide		
(c) Oxygen connection with lamp and burner		
or oil cooking ventilator and location.	7	81
(d) Lamp connection	8	84
(e) Safety lighter, and gas and oil burner		
(f) Burner construction and carbide oxide		
(g) Invention improved modified procedure . . .	0	84
4. Toilet accessories	15	79

[1] See p. 15, supra.

	Companies in which included	
	With Qualifications	As Stated
4. Budget Activities.		
(a) Develop a budgetary procedure.	1	35
(b) Prepare the budget	2	33
(c) Administer or assist in administration of the budget program	3	30
(d) Report and comment on budget results	0	36
5. Inventories.		
(a) Set up and maintain inventory control records	2	41
(b) Supervise the taking and pricing of physical inventory.	0	44
(c) Supervise the operation of the storerooms, raw materials, supplies, partly finished and finished stocks.	0	22
6. Office Management.		
(a) Control supervision of all office operations, including responsibility for personnel, equipment, methods, and physical factors.	8	24
(b) Develop and prescribe office systems and records, standards of office methods, forms, equipment, and supplies for all departments.	5	30
(c) Direction of general office services only--such as stenographic, typing, mail filing, etc.	1	17
(d) Staff or advisory responsibility only for office management activities . . .	3	15
7. Statistics.		
(a) Prepare and interpret all general and special statistical compilations and reports required by departmental executives.	3	43
(b) Prepare sales forecast	4	16
8. Taxes.		
(a) Prepare or supervise and sign tax returns and reports	4	44
(b) Handle claims for refunds of taxes	4	41

(f) Regular clause for relation of terms	7	64
terms and adjuncts		
(g) Irregular clause for relation of terms	8	65
terms and adjuncts		

8. Tenses.

(a) Irregular verbs formed	4	72
contrary		
(b) Irregular verbs formed by differentiated ac-		
cented vowel, with irregular and		
defective forms	5	84

9. Moods.

(a) Irregular verbs and verb phrases ex-
pressing modality, intentionality, and
mentality 8 79

10. Auxiliaries.

(a) Verb phrases with auxiliary verbs 1 1

11. Voices.

(a) Irregular verbs or verbs in nonstandard voice
of the modal process 2 9

(b) Auxiliaries and periphrastic constructions
expressing voice 3 25

(c) Irregular verbs or verbs in nonstandard voice
of the modal process 4 39

(d) Regular and common nonmodal verbs 5 49

12. Imperatives.

(a) Verb phrases with imperative content
[illegible] 6 61

(b) Auxiliaries and periphrastic constructions
expressing [illegible] 7 63

(c) Irregular verbs or verbs in nonstandard voice
of the modal process 8 72

13. Optatives.

(a) Irregular verbs and verb phrases ex-
pressing wishful [illegible] 1 79

(b) Irregular verbs or verbs in nonstandard voice
of the modal process . . . . . 2 [illegible]

(c) Irregular verbs or verbs in nonstandard voice
of the modal process . . . . . 3 [illegible]

(d) Regular and common nonmodal verbs . . . . 4 [illegible]

	Companies in which included	
	With Qualifications	As Stated
9. Miscellaneous and Unusual Assignments.		
(a) General or special studies of business conditions or indices, economic conditions, trade practices, etc.	1	22
(b) Supervise preparation of bids, quotations, and price lists	1	10
(c) Purchasing operations	0	6
(d) Placing or administration of insurance programs (fire, casualty, and life) and handling of claims	5	19
(e) Supervise investments and cash balances	0	18
(f) Custody of investment securities, contracts, etc..	1	16
(g) Credit and collection activities.	0	23
(h) Handle claims from and against customers.	0	16
(i) Industrial engineering activities--motion and time studies, rate setting, etc..	3	5
(j) Following and informing the organization on governmental laws, regulations, rulings, and interpretations	5	26
(k) Negotiation or assistance in negotiation of government contracts or plant extensions	3	22

The above data clearly indicates that the contribution of the controller's office is primarily in the area of general accounting activities. Although this survey was conducted in 1947, there is little evidence to indicate any significant changes in current practices. This, of course, can be expected because of the large dependence of controllership on accounting data. Further analysis of these statistics, from the standpoint of predominant responsibilities, reveals a very interesting and significant situation with respect to the contribution of controllership to management. The following summary clearly points out the relative interest in the various areas of responsibility:

6. Miscellaneous and General Assignments.

	Responsibility	Time Required
(a) General or special studies of customer problems or business, economic conditions or industry, economic conditions, trade practices, etc.	J	12
(b) Cooperative participation of time, questionnaires, and type sizes	J	40
(c) Forwarding operations	C	0
(d) Visiting or entertaining of important customers, prospective [illegible] and Executive Committee [illegible]	C	16
(e) Preparation of travel expense accounts	C	12
(f) Industrial engineering activities-- [illegible]	C	12
(g) Textile chairs [illegible]	C	12
(h) Committee activities	J	24
(i) Travel and outdoor activities	C	12
(j) Following and interesting the organization [illegible], etc.	I	8
(k) Technical engineering activities-- [illegible]	C	12
(l) Miscellaneous and emergencies	J	32

The above data clearly indicates that the distribution of the executive's office is primarily in the area of [illegible] accounting activities. Although this survey was conducted in 1937, there is little evidence to indicate that [illegible] changes in current practices. This, of course, can be expected because of the [illegible] dependence of executive[illegible] on accounting data. Further analysis of these statistics [illegible] the accomplishment of [illegible] most responsibilities, reveals a very interesting and significant situation with regard to the assignment of responsibility in management. The [illegible] number clearly points out the relative interest in the various areas of responsibilities.

	Number of companies in which responsibility was assigned to the controller
1. Primary functions.	
(a) Financial and statistical reports	46-51
(b) Auditing accounting activities	47-50
(c) Record-keeping	46-49
(d) Tax requirements	45-48
(e) Inventory control	43-44
2. Secondary functions.	
(a) Budgetary control	33-36
(b) Government contracts and controls	25-31
(c) Office management	18-35
(d) Insurance	24
(e) Economic studies	23
(f) Credit and collections	16-23
3. Minor functions.	
(a) Sales forecasts	20
(b) Financial activities	17-18
(c) Pricing	10
(d) Management engineering	8
(e) Purchasing	6
4. Obscure functions.	
(a) Analysis and interpretation of operational data	0
(b) Management planning	0
(c) Coordination of business activities	0

These observations are rather alarming when considered from the standpoint of the contribution of controllership to management. The major effort appears to be in that area of business management which has long been controlled by the accountants--that of record-keeping and reporting. True, the accounting requirements have been vastly increased because of the expanding complexity of business, but record-keeping and reporting alone do not provide management with all the information necessary for effective and efficient

1. Natural inequalities.

(a) Physical and statistical
inequalities
(b) Qualified accumulating regularities
(c) The distinctness
(d) Inverse-graded
(e) Inductive capacity
(f) Genetic and collective

2. Inherent limitations.

(a) Inherent capacity
(b) Differential capacities and
curricula
(c) Native endowment
(d) Inverse
(e) Economic status
(f) Genetic and collective

3. Minor influences.

(a) Joint Inheritance
(b) Physical variations
(c) Inherited aptitudes
(d) Inherited diseases
(e) Physical conformation
(f) Inherited defects

4. Social influences.

(a) Social Inheritance
(b) Economic status
(c) Education
(d) Occupational selection
(e) Migration
(f) Social and collective

5. Social differentiation.

(a) Social Inheritance
(b) Economic status
(c) Education
(d) Occupational selection
(e) Migration
(f) Social and collective

Those conditions are never directly concerned with the assumption of the existence of universals, but nevertheless the validity and significance of any theory, but especially those of the latter sort, depend upon the determination of the relationship of universals to experience. The method which is to find place of greatest significance depends upon the kind and degree of the relationship--i.e. of universal-validity and potential. That, in general, is the task of the philosophy of science.

management. Controllership must pay its way--it must make a contribution in addition to that of record-keeping and reporting. Failing in this, there can be little justification for calling the chief accountant a controller. Unfortunately, the increasing accounting requirements appear to have resulted in a compromise of the controller's responsibilities. There is evidence that many controllers are so concerned with the details of record-keeping that they are unable to devote adequate attention to other management functions. This fact is particularly highlighted in the above summary. It was also confirmed by a number of controllers who spoke to the Navy Graduate Comptrollership Class at George Washington University during the 1952-53 term. In nearly all instances, the controller's functions were almost entirely in the area of general accounting activities. Several were not even members of the budget committee, and others appeared to have no real management planning or administrative responsibilities.

It is heartening, at least, to see that approximately two-thirds of the companies did assign budget responsibilities to the controller. It is also encouraging to note that about half of the controllers were engaged in economic studies and forecasts. But throughout this entire survey and as evidenced in current practices, there seems to be a large void in the area of analysis, interpretation, planning, and coordination. It is charged, therefore, that the contribution of controllership has been considerably lessened by focusing interest on accounting details rather than on the broader aspects of obtaining the most useful control information available.

It is believed that management has contributed somewhat to this weakness by taking certain liberties with the office of controller. This is especially evident by the wide scope of responsibilities that have been assigned to the controllers.

It appears that in some instances management has found it convenient to promote the chief accountant, or some other employee, to the title of Controller. These advancements in status are suspect when increases in salaries are not commensurate with increased responsibilities, or, worse than that, when responsibilities are not increased at all. Further advancements may be effected by establishing the controller as an officer of the company. The practice of advancement in official status in lieu of financial gain is an old story in American business, and it can only lessen controllership's contribution to the management team.

PART IV

THE REAL ROLE OF CONTROLLERSHIP

Objectives

Contribution to management.--In order to clearly understand the objectives of controllership, it is necessary to review the facts with respect to why controllership has been accepted by American business. There are few who will disagree with the premise that controllership has been accepted because management found itself in need of assistance. This is the first significant fact; it was management who needed assistance--not the shareholder, not the board of directors, not the foremen or the supervisors. Is it not relevant, therefore, that the objectives of the controller should be aimed squarely toward making a contribution to management? More important, this contribution must be an addition to the management program--not an old office with a new name, but a new office with something to offer to pay its way.

Why did management need assistance? The answer to this question covers the broad gamut of nearly all business activities. It is tied directly to the social and economic evolutions that are a part of our way of life. More specifically, management needed assistance to keep pace with the changing environment of business that harbored progress and reverses, gains and losses, survival and chaos. A recent book on management planning and control aptly expresses this situation in the following manner:[1]

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[1] B. E. Goetz, Management Planning and Control (New York: McGraw-Hill Book Company, Inc., 1949), p. 9.

THE BOOK OF CONSTITUTIONS

Objectives

Constitution to Amendment.—In order to clearly understand the objectives of Constitutionality, it is necessary to review the terms with reference to the book according to American Psychology. There are two ways originally used terms constitutionally has been according to the Greeks. This is how different from the Greek and Roman constitutions, as the Greeks and Romans had no written constitutions, but the Greeks and Romans had no written constitutions, but the Greeks and Romans had no written constitutions, but

Managerial problems are becoming more complex and more difficult. As a result, management needs more data, reported more promptly, more sharply oriented with respect to managerial problems and objectives, and more fully valid with respect to the changing environment of the enterprise. Major trends tending to increase management's need for data and for sharper focusing of data on problems are:

1. The growing scale and complexity of industry
2. The increasing use and importance of fixed capital
3. The increasing range and tempo of change
4. The increasing social control of business

The assistance that management needs and the reason why this need exists can now be seen quite clearly. The controller is ideally suited to advance in stature and provide this assistance to management. For this reason it was not difficult for American business to accept controllership in this expanded capacity. The objectives of the controller are, therefore, morally bound to the needs of management, and these objectives can be defined in the following manner:

1. To provide management with vital information with respect to all phases of the company's activities.
2. To provide current information that can be utilized effectively for planning and control--not historical data that is sterile for management purposes.
3. To provide information that will distinguish managerial problems and evaluate the objectives of management.
4. To provide analysis and interpretation of information to show management: (a) where it has been; (b) where it is now; (c) where it is going; and (d) what the danger signals are enroute.

Functions.--These objectives can be restated in terms of the specific areas of management in which the controller should make a significant contribution. These areas may be classified under four major headings:

position. Items whose ads be eliminated unless they enjoy popularity.

state of environment in which the particular company made a significant decision

Illustrations.--Three objectives may be pursued in order of the elasticity

whether it is going out of its way to get the regular customers.

customers). (e) whether it pay taxes (d) whether it is sick (c)

e. To finance analysis and interpretation of information in such

ever varying the objectives of management;

d. To finance information that will distinguish uncontrollable factors

for investment;

c. To finance existing information that can be critical eliminated

the investor and control--(or) protected into that is exactly

all items of the company's activity;

b. To finance the continuous with risky information with emphasis to

be defined in the following manner

1. To finance investment with risky information with emphasis to

risk, namely based to the study of management; and codes eliminates her

to ride economic adequate. The objectives of the industrial air, depris-

having it not for liability for invited customs to study environmental

valuable in studies are invited with assistance of investment. But this

people can not be very fully stated. The essentials is identify action to

The assistance that investment needs and the reasons not open when

1. The increasing timely control of industry
2. The increasing use and importance of time analysis
3. The interesting study and tools of study
4. The increasing timely control of industries

date and for special function of only it findings when

acceptance. Other trends resulted in business management, many the-

and note lurly really also useful be the studied maintenance of the

rapidly attested with research problems and objectives,

is a result, investment made used date, improved being finding, once

Investment problems are decided make liability and when liability.

(1) Accounting

(2) Management audit and investigation

(3) Management analysis and interpretation

(4) Management planning and control

This is not necessarily the order of importance of the controller's functions, but rather the continuity of responsibility. Let us now examine in more detail the scope of each of these areas and the specific functions that should be the primary responsibility of a controller.

The Accounting Function

Staff versus line.--The accounting function of controllership is generally considered to be primarily record-keeping and reporting of accounting information. In this capacity the controller is usually the chief accountant, and is charged with the responsibility of devising, installing, and maintaining all general financial and cost accounting operations. In addition to this, he is normally charged with the auditing and tax responsibilities. This delegation of responsibility is the normal outgrowth from the acceptance of the accountant as the most qualified person in the business organization to direct the functions of the controller. It is true that most of the information utilized for management purposes is obtained by the accounting department, but management has enjoyed capable and efficient accounting services for many years and the accounting profession has been very progressive in its practices. The controller, however, must make an additional contribution to management. As a member of the management team, the details of supervising the accounting department and maintaining record-keeping operations become less important and the overall problems of methods, systems, and procedures become more significant. Critical analysis of checks and controls replaces the precise recording of accounting operations. The

controller's primary interest must be in the area of management and not as the head of an operating department. The controller must analyze all phases of the company's activities and advise and recommend with respect to managerial problems. He should, therefore, function primarily in a staff capacity. This is not a new concept of the controller's accounting function. One of the fundamental principles of internal control is that the record-keeping functions should be segregated and checked by some other employee. Victor H. Stempf advocated the segregation of the record-keeping function and the controller and had this to say on the subject:

> I believe that the controller should design and formulate the methods of accounting to be pursued by the company, but I don't believe that he should be directly responsible for the internal recording of transactions. I think that is an operating function. The ideal setup in a large organization is to have a chief accountant, who reports directly to the general manager and is independent of the controller, and whom the controller checks.[2]

A recent technical publication on controllership also indicates that the real function of the controller is in a staff capacity, rather than as a department head. The author expressed his views on the subject in this manner:

> If this expanding relationship of the controller to all management is truly indicative of a long-term trend, it raises the possibility that, as controllership acquires a broader or company-wide status, it will emerge on a plateau above the departmental level....Eventually, and particularly when top management does not itself possess controller experience, it seems possible that the function of controllership is likely to become more distinctly separated from accounting (and more distinctly dissociated from record-keeping). As a result, the weight of emphasis would undoubtedly tend to move further away from fact-finding, record preparation, and employee supervision toward fuller analysis and expanded interpretation as an aid to better management.[3]

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[2]D. R. Anderson, Practical Controllership (Chicago: Richard D. Irwin, Inc., 1949), p. 12.

[3]T. F. Bradshaw and C. C. Hull, Controllership in Modern Management (Chicago: Richard D. Irwin, Inc., 1950), p. 9.

[illegible] [illegible] [illegible] [

This concept of segregating the controller from the record-keeping function is not merely a proposal or a whim of certain individuals. There is much evidence that business has already recognized the desirability of this arrangement. The survey conducted by the Metropolitan Life Insurance Company made particular note of this fact and reported as follows:

> ...there has been a definite change in the basic concept of the controller's position from that of a minor administrative function, concerned largely with accounting details and record-keeping, to that of a major factor in the control and profitable operation of the business as a whole. More emphasis is being placed on the controller as a staff executive serving in an advisory capacity to other departments and executives.[4]

From a practical standpoint, the size of the company would undoubtedly dictate whether the controller is charged with the record-keeping function of accounting. In a small business, it would probably not be advisable to segregate this function--primarily from a cost standpoint. The important thing is that the controller has sufficient time to effectively direct the more important management functions.

Systems, policies, and procedures.--The contribution of the controller in the area of accounting should, therefore, be concerned primarily with the determination of requirements for an effective financial and managerial accounting system. The major function of accounting is to serve managerial needs and to facilitate the attainment of managerial objectives. The determination of accounting requirements should, therefore, be made by management--not by an operating department. The implementation of these requirements can then be delegated by management to the chief accountant. This concept of the controller's responsibility for accounting embraces design and installation of corporate, financial, managerial, and cost-accounting requirements, together

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[4]Functions of the Controller (New York: Metropolitan Life Insurance Company, 1947), p. 9.

[illegible] [illegible] [illegible] [

with the methods, systems, internal controls, and policies that will enable coordinated accounting operations. This responsibility can be met in part by the preparation of an accounting manual covering all phases of company operations. The controller's responsibility is continuous and professional skill is required to keep abreast of the changing environment of the business world. A system of internal analysis and investigation must be constantly employed to assure accurate reporting of necessary information. Effective internal audit procedures, under the cognizance of the controller, will provide this assurance.

Management Audit and Investigation

The auditing function.--In order to attain the objectives outlined previously, management must be provided with information that can be utilized effectively for planning and control. It is important, therefore, that the implementation of company policies and procedures is continuously evaluated, and that an adequate system of checks and controls is established and constantly reviewed. Management must also be evaluated with particular regard to matters of organization, staffing, administrative procedures, and the utilization of personnel, materials, and facilities. This is the controller's responsibility. His tools for the job are (1) internal auditing, (2) internal checks and controls, and (3) management engineering.

Internal auditing.--Since the controller prescribes the accounting procedures, he should also be charged with making the work of the accounting department more efficient. This is the task of the internal auditors. The objectives of this function are not only to prevent weakness from developing in the accounting operation because of failure to follow prescribed procedures, but also to make constructive appraisals of existing procedures with an aim toward making improvements. Internal auditing is concerned with

with an ever lower capital investment. Internal auditing is concerned with procedures, but also to some considerable extent with policies, objectives, and organization. The objectives of internal auditing are not only to prevent unnecessary duplication of work, but also to help prevent the failure to follow prescribed procedures, be equally alert to changes which may affect the economy, efficiency, and control of operations, and (3) recommend solutions.

Internal auditing.--Since the accounting profession has developed in the nineteenth century because of failure to follow prescribed procedures, but also to some considerable extent with policies, objectives, and organization. The objectives of internal auditing are not only to prevent unnecessary duplication of work, but also to help prevent the failure to follow prescribed procedures, be equally alert to changes which may affect the economy, efficiency, and control of operations, and (3) recommend solutions. Internal auditing is concerned with policies, objectives, and organization. The objectives of internal auditing are not only to prevent unnecessary duplication of work, but also to help prevent the failure to follow prescribed procedures, be equally alert to changes which may affect the economy, efficiency, and control of operations, and (3) recommend solutions.

Internal auditing.--Since the accounting profession has developed in the nineteenth century because of failure to follow prescribed procedures, but also to some considerable extent

a wide range of management activities and its overall objectives may be defined as follows:

1. The ascertainment of compliance with the organization's rules, procedures, and policies of an accounting and financial nature and their related aspects.
2. The conservation of the organization's resources and general protection of its interests with respect to assets, liabilities, revenues, and expenditures, and their related implications.
3. The verification of accounting and financial data in a broad sense, together with effective analysis of them.
4. The appraisal of existing rules, procedures, and policies relating to accounting and financial and associated activities, together with constructive recommendations which are directed toward the improvement of general company welfare.
5. The training and encouragement of personnel, together with the provision of such circumstances and conditions as are most conducive to their welfare.
6. Other services to management of a direct nature in the way of providing an effective means of contact with field operations and an impartial reporting agency; the provision of personnel for executive positions; and the furthering of the efficiency and economy of the outside audit.[5]

Internal auditing makes a separate contribution to management. It supplements the accounting department, and by its analysis and interpretation lends greater validity to the accounting data and provides management with a sounder basis for direction and control.

Internal checks and controls.--It is difficult to separate the function of internal control from that of internal auditing. In fact, it is a part of internal auditing. However, because of the specific responsibility of management to safeguard the assets of the company, it is listed as a separate responsibility. Internal control embraces the analysis of accounting methods and practices and the establishment of a system of internal checks whereby the accounting forms and records are all coordinated and operated in such a manner that maximum protection is provided against irregularities. This is an important function from which management derives the

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[5] V. Z. Brink, Internal Auditing (New York: The Ronald Press Company, 1941), p. 38.

[illegible] of management accounting practices and the current deficiencies may be summarized as follows:

1. The overemphasis of compliance with the organization's rules, procedures, and policies at an accounting and financial matters and the related aspects.
2. The conservation of the organization's resources and control procedures of the techniques with respect to assets, liabilities, income, and expenditures, and their related implications.
3. The verification of accounting and financial data to a broad nature, and relationships of them.
4. The appraisal of existing rules, procedures, and policies regarding together with efficiency analysis of them.
5. Other services to management at a direct nature to the way of discharging and its relationship to personnel, employer and the provision of general economic welfare.
6. The creation and encouragement of personnel, employer and the attitude of such economic and conditions as are such economic to their welfare.

Internal auditing should a corrective orientation to management. It [illegible] the accounting [illegible] and [illegible] the [illegible] and [illegible] with a counter basis for direction and control.

Internal checks and controls.--It is difficult to separate the function of internal control from that of internal auditing. In fact, it is a part of internal auditing. However, because of the specific relationship of management to safeguard the assets of the company, it is listed as a separate responsibility. Internal control embraces the analysis of accounting methods and procedures and the establishment of a system of internal check whereby the accounting forms and records are all coordinated and operated to such a manner that maximum protection is provided against irregularities. This is an important function area which management delegates to the internal auditor.

[illegible] B. Brink, Internal Auditing (New York: The Ronald Press Company, 1941), p. 30.

maximum utility from the accounting records with respect to information, protection, and control.

Management engineering.--There are many differences of opinion in regard to the status of the management engineer. But, regardless of professional interests, the work of the management engineer and the internal auditor is essentially the same in certain areas of evaluation. Therefore, since the controller is charged with complete management audit, there can be little argument for excluding the management engineer from the controller's organization. In fact, it lends continuity and coordination of effort to the evaluation of the entire business organization.

Management Analysis and Interpretation

Financial and operating reports.--The analysis and interpretive function is one of the most important contributions that controllership can make to management. It should be the controller's responsibility to assemble the necessary financial and operating data, to conduct thorough analyses and interpretations, and to report to management in a manner that will enable effective utilization of these data for administrative planning and control. Financial and operating reports are management's only means of measuring the operations of the company, and they are, therefore, the basic foundation for nearly all decisions with respect to company policy and planning. In addition, there are certain legal requirements for company reports which the controller should prepare because of the liability accruing to the company. The increasing social control of business is making this function more important every day.

The controller who functions in a staff capacity, rather than as the head of an operating department, is in an advantageous position to conduct critical and constructive analysis, and to interpret the facts and figures

to assist management in the measurement of results and in the formulation of plans and policies. The presentation of essential facts in such a manner that they can be readily understood is the real climax to the controller's contribution to management. However, presentation alone may not be sufficient. The controller must successfully communicate these facts to management. He must understand the attitudes, viewpoints, and problems of management, and make sure that the real meaning of the reports he submits is clearly understood. This is a problem that requires continuous effort and the controller should be free to devote adequate attention to this end. Fruition of the controller's efforts can be enjoyed only by successful communication of the essential facts.

Economic studies.--The reporting of external information on markets and competitive activities and on general economic activities is not usually considered a controllership responsibility; yet a cursory examination of the facts clearly indicates that these activities must be considered in the analysis and interpretation of financial and operating data. If financial and operating reports are to be useful for management planning, they must be collated with the various economic influences. The controller should, therefore, be responsible for assembling this information and for evaluation with respect to the effect on operations of the company. Economic trends are vital to management planning. A knowledge of past movements is as necessary as a record of the tides is to a ship's captain. Nearly all plans are based on forecasts and expectations. Therefore, research and study of economic and market movements are essential for complete analysis and interpretation of operating data. The stock market is a useful barometer for financial planning. There are numerous areas for continuous observation, such as interest rates, credit levels, inventory levels, trade practices, price controls,

ladies' ready jewelry department, women fingering' fancy rings nonchalantly, fancy ornamented cigar. There are numerous black and-white-uniformed operators, some as talented clarinet duets. The music reduces it a neutral background for leisurely human encounters are essential for nonlinear narrative and interpretation of Christmas and celebrations. Therefore, instead and tried to create a montage of the evening as a result it can also be a useful metaphor. Beside all these are ready to function almost literally. I developed [illegible] because it be incorporated into the narrative. Instead, I decided to create a montage of the evening's events. Because simply describing the various events and the narrative into the montage

labor movements, industrial indices, etc. To deny controllership the study of these influences can only diminish the value of the financial and operating reports.

Management Planning and Control

Budgetary planning and control.--"The controller's responsibility begins with the reporting of facts about actual operations and extends naturally to the assembling, summarizing, and reporting of operating plans in the form of the budget and to comparisons with the reported results of other companies and of industry in general."[6] This statement clearly suggests that the budget is a tool for management planning and control, and that the controller should be responsible for this contribution. This is a real management function that can be accomplished best by a staff group--not by an operating department. Budgetary planning and control is a way of managing a business and it provides top management with the information it needs to effectively direct the operations of the company. The budget is the one tool that satisfies all of the objectives of management planning and control. These objectives, as stated in a recent article by a prominent consultant on management problems, are:[7]

1. Setting a profit goal.
2. Setting departmental goals which taken together will achieve the profit goal.
3. Measuring progress against those standards.
4. Making continuous adjustments to keep the whole organization moving in balance toward the goal.

It is not difficult to see that these objectives are completely embraced by effective budgetary procedures. This is an area of management that will make controllership pay its way in the management structure of

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[6] Bradshaw and Hull, op. cit., p. 51.

[7] T. F. Bradshaw, "The Place of the Controller in Management Planning and Control," The Controller, (October, 1952), pp . 472-500.

[illegible]

[illegible]

[illegible]

American business. The only controlling factor is that management must recognize the need for budgetary planning and control. Budgeted businesses today are still in the minority, but it is a fact that the general trend is toward more budgetary control in industry. "It is an even more significant fact that, to the best knowledge of the authors, there is no case of any business having given up its budgetary control once it had been adopted by the organization."[8] This is, indeed, a remarkable observation, and it clearly indicates that one of the most promising contributions that the controller can offer management is in the area of budgetary control. Here is a real future for controllership. The authors of the above statement are even more enthusiastic about the role of budgeting in management and state that "budgetary control, when properly practiced, is probably the last word in the technique of scientific management and also the best method yet devised for developing the team spirit in any given organization."[9]

The survey conducted by the Metropolitan Life Insurance Company--which was discussed in Part III of this paper--showed that in actual practice budgeting was a secondary function of controllers in business. If the real objectives of management planning and control are as stated in the previous paragraphs, this practice in industry is not compatible with the objectives of management. It is probably safe to say that these objectives will not change--in fact, they are becoming more significant every day. Management must, therefore, recognize the need for budgetary control and charge the controller with this responsibility. It is only in this manner that the tools for efficient management can be used effectively, and controllership will in

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[8] W. Rautenstrauch and R. Villers, Budgetary Control (New York: Funk & Wagnalls Company in association with Modern Industry Magazine, 1950), p. 263.

[9] Ibid., p. 264.

[illegible] by Dee.

turn increase in stature and make a real contribution to management.

Government controls.--The increasing social control of American business has naturally distended the reporting requirements of business and also the internal control required to assure compliance with the numerous regulations, legislation, and social agreements. This is a relatively new area in management and one in which controllership can make a real contribution. Management needs capable assistance for the analysis and interpretation of these controls and for the development of decisions and policies in regard to the effect of these controls on the operations of the company. This is not only a large task, but also a very important one. Additional accounting procedures may be required for generating necessary information, and additional internal controls may be necessary to insure compliance with all regulations. The task will normally embrace legal analysis and arbitration of company problems, and the inauguration of programs that will commit the company to substantial financial responsibilities. This is a management function that should be assigned to the controller. It is a staff function that management needs in order to fulfill its responsibility to its shareholders.

PART V

SUMMARY

The real role of controllership is a management function--not one of figure collecting, record-keeping, and reporting of accounting information. These functions do not provide management with the information it needs for effective planning and control of financial and operating activities of the company. These functions can be performed by any accounting department. Controllership must make an additional contribution to management. It must bring the facts and figures to "bear where and when they will do the most good--within the management process and before the decision is made. This combination of facts, figures, and the management viewpoint provides management with objective goals, objective appraisals of performance, and a balancing of the factors and opinions that result in management decisions."[1]

Controllership must analyze, interpret, and evaluate facts and figures that are generated within the company and within the business environment; it must collate this information with respect to the management viewpoint; and it must communicate this information to management in such a manner that it will be understood. In addition, controllership must provide management with effective business systems, procedures, and controls that will not only generate planning and control information, but will also protect the interests of the shareholders. These systems must embrace prudent business policies that will

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[1] T. F. Bradshaw, Developing Men for Controllership (Boston: Harvard University Graduate School of Business Administration, 1950), p. 7.

protect the assets of the company at all times. This is a management function that can be performed best in a staff capacity--not by an operating department.

Controllership can achieve management status only by recognizing the needs of management--not by compromising the position to further the goals of the accounting profession. Management, in return, must recognize the need for this real role of controllership. Failing in this, it will be difficult for management to protect the interests of the shareholders in the rapidly changing business environment that exists today.

to the rapidly changing business environment that exists today.

to difficult for management to ignore) the interests of the shareowners the need for this real role of controllership. Failing to this, it will deals of the community protection. Management, in return, must recognize the needs of management--not by compromising the position as fiduciary for

Controllership can actively participate across many of functional

ation that can be performed here in a small enterprise--and it do enterprising management.

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